

FDIC State Profile

Spring 2005

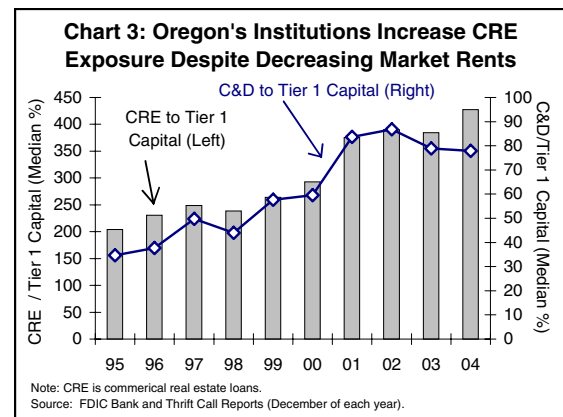
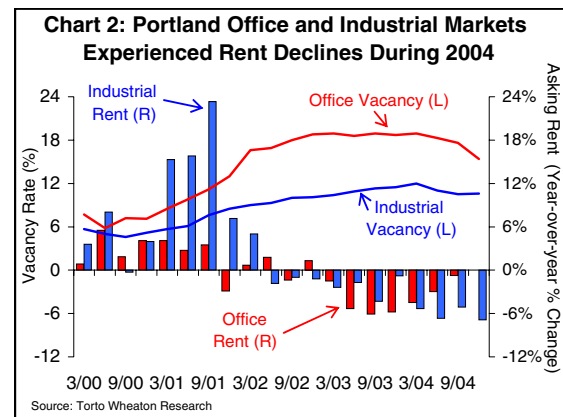
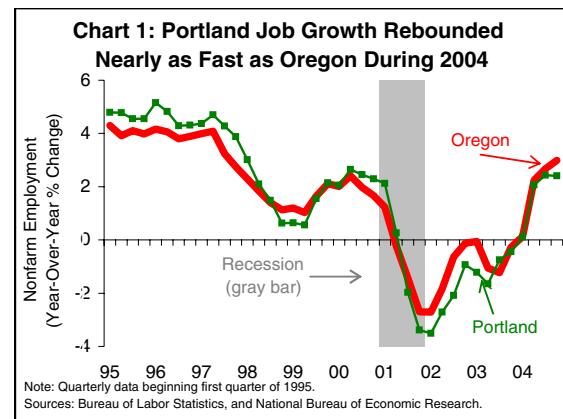
Oregon

Oregon job growth outpaced the nation in 2004.

- Nonfarm employment grew 3.0 percent for the year ending fourth quarter 2004, ranking Oregon as the sixth fastest growing state in the nation. This strong growth is expected to continue through 2005.
- A recovery in Oregon's important high-tech industry has translated into job growth in the professional and business services sector. By year-end 2004, this sector added 7,900 new jobs, more than half of which were in the administrative and support service industries.
- The manufacturing sector added 7,600 new jobs in part because of strength in the semiconductor (2,000 jobs) and the transportation equipment (1,800 jobs) manufacturing industries.
- The trade, transportation, and utilities sector also reported strong growth by adding 7,100 new jobs, more than half of which were in the retail services subsector.
- Mirroring national trends, the information sector, which represents a little more than two percent of total jobs, was the only sector to lose jobs.
- Strong job growth helped bring down the unemployment rate; however, as of fourth quarter 2004, it remained above 7 percent, leaving Oregon with the third worst unemployment rate in the nation.

Portland commercial real estate (CRE) vacancies decreased to national levels.

- Stronger job growth contributed to an improved year-over-year Portland office vacancy rate, which declined from 18.7 percent for fourth quarter 2003 to 15.4 percent in 2004 (See Chart 1). A continued but very gradual recovery for this property type is projected over the next two years.¹ Vacancy rates for industrial properties also improved year-over-year, declining from 11.5 percent at year-end 2003 to 10.6 percent in 2004. However, a small uptick in industrial vacancies is projected over the next two years as completions outpace absorption.



¹The data and forecast source was TortoWheaton Research.

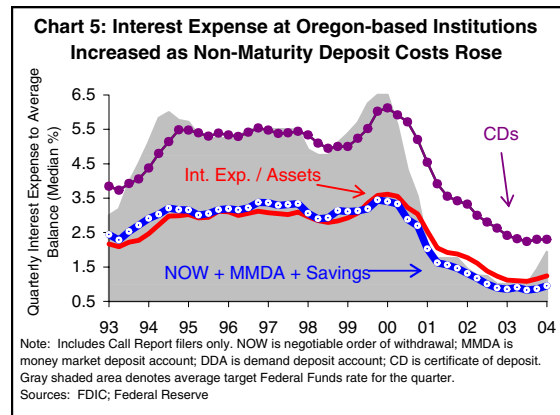
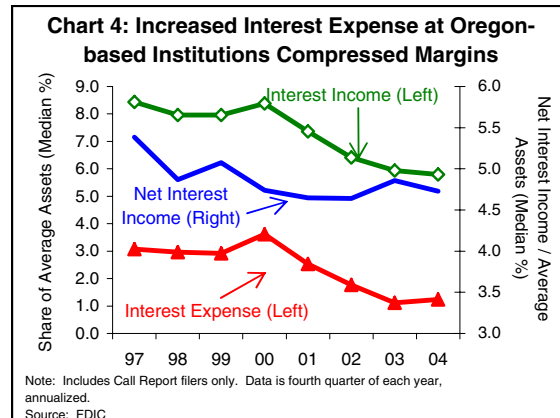
State Profile

- Contrary to positive trends in vacancies, the rental rates of Portland industrial properties during 2004 continued to experience some declines (See Chart 2). As of fourth quarter 2004, rents for office space declined 8 percent since their second quarter 2002 peak, while industrial rents have declined 12 percent since their third quarter 2001 peak. Going forward, some landlords in Portland may continue to experience lease re-pricing pressures as long term contracts established during a better rental rate environment expire.
- Oregon-based institutions increased their CRE exposure, but construction and development (C&D) exposures moderated, possibly reflecting the elevated vacancy rates in the Portland market over the past few years (See Chart 3). Exposure to C&D and CRE loans ranked fourth and eighth in the nation, respectively, at year-end 2004. As interest rates rise, debt service may rise faster than market rental rates, possibly challenging borrower repayment capacity.
- As of fourth quarter 2004, however, CRE asset quality at insured institutions based in the Portland metro area improved as higher occupancy rates and lower interest rates helped offset the effect of lower rental rates. As a result, the median CRE past-due ratio decreased from 0.85 percent one year ago to 0.45 percent, which is comparable to the national rate.

Earnings at Oregon-based institutions remained strong, despite net interest margin (NIM) compression.

- Earnings performance at insured institutions headquartered in Oregon decreased in 2004 due to the addition of four new institutions. The median return on assets (ROA) for 2004 was 1.21 percent, down from the prior year's 1.26 percent and still well above the 1.02 percent reported for institutions nationwide. A relatively flat median NIM, combined with lower noninterest income, offset decreased overhead and credit costs.
- Among banks, the median net interest income to average asset ratio narrowed as annualized quarterly interest income decreased and interest expense increased year-over-year as of fourth quarter 2004 (See Chart 4). Interest income declined, possibly due to a robust loan growth rate (26 percent year-over-year as of fourth quarter 2004) as lower rate new loans decreased overall portfolio yields.
- Increases in the quarterly interest expense are attributed to the funding mix. Institutions based in Oregon reported that NOW accounts, Money Market Demand Accounts, and other savings accounts funded a median 37 percent of assets compared with 33 percent for institutions

nationwide.² The cost of these accounts, as measured quarterly, increased year-over-year as of fourth quarter 2004 as short-term rates rose, while the cost of certificates of deposit declined (See Chart 5).



²NOW is negotiable order of withdrawal (an interest-bearing checking account with restrictions); MMDA is money market deposit account (an interest-bearing savings vehicle with limited check-writing privileges).

Oregon at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	3.0%	-0.3%	-0.1%	-2.7%	1.7%
Manufacturing (13%)	3.9%	-2.3%	-3.9%	-7.2%	0.2%
Other (non-manufacturing) Goods-Producing (6%)	7.0%	0.5%	0.5%	-6.3%	-0.8%
Private Service-Producing (65%)	2.8%	0.4%	0.7%	-2.6%	2.3%
Government (17%)	1.6%	-1.6%	-0.3%	1.9%	1.3%
Unemployment Rate (% of labor force)	7.2	7.9	7.6	7.5	5.2

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	3.6%	2.0%	1.6%	5.2%
Single-Family Home Permits	19.0%	-1.9%	24.0%	-4.3%	-2.0%
Multifamily Building Permits	7.0%	46.9%	-13.8%	-4.3%	27.2%
Existing Home Sales	11.6%	12.6%	9.1%	3.1%	10.3%
Home Price Index	10.9%	6.4%	4.7%	5.5%	4.0%
Bankruptcy Filings per 1000 people (quarterly level)	1.59	1.64	1.76	1.61	1.33

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	40	38	37	38	47
Total Assets (in millions)	23,600	21,395	20,813	20,177	19,471
New Institutions (# < 3 years)	8	4	5	5	10
Subchapter S Institutions	2	2	1	1	1

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.44	0.84	0.72	1.09	0.95
ALLL/Total Loans (median %)	1.20	1.18	1.20	1.19	1.13
ALLL/Noncurrent Loans (median multiple)	4.86	2.32	3.05	2.23	2.10
Net Loan Losses / Total Loans (median %)	0.06	0.12	0.12	0.14	0.09

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	10.95	10.38	9.43	9.46	9.19
Return on Assets (median %)	1.21	1.26	1.24	1.11	1.11
Pretax Return on Assets (median %)	1.56	1.75	1.84	1.57	1.41
Net Interest Margin (median %)	5.05	5.04	5.08	4.72	5.16
Yield on Earning Assets (median %)	6.12	6.53	7.37	8.43	9.06
Cost of Funding Earning Assets (median %)	1.27	1.44	2.34	3.51	3.78
Provisions to Avg. Assets (median %)	0.17	0.24	0.28	0.25	0.23
Noninterest Income to Avg. Assets (median %)	0.75	1.04	1.00	0.98	0.88
Overhead to Avg. Assets (median %)	3.47	3.73	3.45	3.48	3.86

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	74.7	72.8	72.4	75.0	70.9
Noncore Funding to Assets (median %)	16.6	14.0	15.4	17.3	16.3
Long-term Assets to Assets (median %, call filers)	23.1	26.2	21.8	18.5	16.4
Brokered Deposits (number of institutions)	13	11	8	9	9
Brokered Deposits to Assets (median % for those above)	2.5	2.8	2.5	4.0	2.2

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	97.1	90.9	100.6	118.7	112.2
Commercial Real Estate	427.4	384.6	390.3	389.1	292.8
<i>Construction & Development</i>	77.8	78.9	86.8	91.7	59.6
<i>Multifamily Residential Real Estate</i>	22.1	20.7	19.6	22.1	11.5
<i>Nonresidential Real Estate</i>	260.5	237.2	228.8	235.2	177.1
Residential Real Estate	64.9	70.3	76.5	102.0	96.7
Consumer	13.0	20.1	31.2	34.8	35.3
Agriculture	11.5	11.4	13.9	14.2	9.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Portland-Vancouver-Beaverton, OR-WA	36	22,964	< \$250 mil.	26 (65%)
Salem, OR	18	3,269	\$250 mil. to \$1 bil.	10 (25%)
Eugene-Springfield, OR	16	3,068	\$1 bil. to \$10 bil.	4 (10%)
Medford, OR	13	2,219	> \$10 bil.	0 (0%)
Bend, OR	13	1,692		